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STATE OF MONTANA

WESTERN MONTANA COLLEGE

REPORT ON AUDIT

Conducted Under Contract By
Janke and Van DeLinder
Certified Public Accountants

Fiscal Year Ended June 30, 1976

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STATE OF MONTANA

WESTERN MONTANA COLLEGE

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Certified Public Accountants

Fiscal Year Ended June 30, 1976

76C-30

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

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STAFF LEGAL COUNSEL
JOHN W. NORTHEY

March 5, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Western Montana College for the year ended June 30, 1976.

The audit was conducted by Janke and Van DeLinder, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*

Honorable Dolores Colburg, Superintendent of Public Instruction*

Dr. Lawrence K. Pettit, Commissioner of Higher Education*

John L. Peterson	Butte	1982
Lewy Evans, Jr.	Billings	1983
T. T. Heberly	Havre	1977
Mrs. Mary Pace, Vice Chairman	Bozeman	1978
Ted James, Chairman	Great Falls	1979
Jeffrey B. Morrison	Helena	1980
Sid R. Thomas	Bozeman	1977

* ex officio members

WESTERN MONTANA COLLEGE

LOCAL EXECUTIVE BOARD

Frank M. Davis	April, 1978
Bruce Watters	April, 1979
Carl M. Davis	April, 1977

ADMINISTRATION

Dr. James E. Short (retired June 30, 1976)	President
Dr. George Bandy	Interim President
Harding Hanson	Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Western Montana College is included in the back of this report.

	Page
Establish an investment program with the State Board of Investments.	4
Agency Reply: Concur. See page 46.	
Obtain approval from the Department of Administration to maintain non-treasury accounts or funds.	4
Agency Reply: Concur. See page 46.	
The change fund be evaluated by appropriate personnel to determine if the fund balance could be reduced.	4
Agency Reply: Concur. See page 46.	
The smaller old outstanding checks should be investigated, and if conditions permit such action, they should be written off.	5
Agency Reply: Concur. See page 46.	
The check representing the work-study refund should be voided. The college should then transfer the $2,621 to one of the following financial aid programs: National Direct Student Loan, College Work-Study, Supplemental Educational Opportunity Grants, or Basic Educational Opportunity Grants. This transfer would substitute as a receipt of federal funds for the 1976-77 financial aid program.	5
Agency Reply: Concur. See page 46.	
The difference be investigated and that in the future cash be reconciled on a monthly basis. Differences arising in the future should be resolved as quickly as possible.	5
Agency Reply: Concur. See page 47.	
Accounts receivable should be established when checks are returned by banks and maintained until such time as collection or other disposition of the checks has	

Page

been made. The receivable should include any penalty which has been assessed by the bank. 5

Agency Reply: Concur. See page 47.

Teller's daily close out sheets be periodically reviewed by a responsible official. A surprise review would be most desirable. 6

Agency Reply: Concur. See page 47.

The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature. 6

Agency Reply: Concur. See page 47.

Request of the Board of Regents a policy which would serve as a guide in accounting for the revenues generated from the service charge and the type of expenditures eligible to be made from accumulated funds. 6

Agency Reply: Concur. See page 47.

The receivables arising from the deferral of student fees should be incorporated into the college's present accounting system and the income should be recognized at the time the student elects to defer the charge. 7

Agency Reply: Concur. See page 48.

Review on a timely basis students on a deferred fee payment plan to ensure that the fees are collected in accordance with Board of Regent's policy. 7

Agency Reply: Concur. See page 48.

Students who are unable to make deferred payments should be referred to the financial aids office. This office should attempt to evaluate the student's financial needs and seek to provide financial aid. 7

Agency Reply: Concur. See page 48.

Periodically age the accounts receivable and review the aging schedule for delinquent accounts. The delinquent accounts should be investigated and collection pursued. 7

Agency Reply: Concur. See page 48.

Page

Establish an allowance for uncollectible accounts. 7

Agency Reply: Concur. See page 48.

If the college exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection. 7

Agency Reply: Concur. See page 48.

When it appears the account will not be collected, it should be written off, but only after Department of Revenue approval. 8

Agency Reply: Concur. See page 48.

The college should adjust its building fees to comply with the law. 8

Agency Reply: Concur. See page 48.

Comply with the provisions of the Indenture and assess the full non-resident building fee of $22.50 per quarter to all non-resident students attending Fall, Winter, and Spring quarters without regard to the number of credits being taken by the student. 8

Agency Reply: The college believes that this problem must be addressed by the Board of Regents. See page 49.

The college should continue its effort to comply with generally accepted reporting practices and procedures. 9

Agency Reply: Concur. See page 49.

Reclassify the student store to an auxiliary enterprise. The revenues and expenditures derived from its operations should be shown in the statements of changes in fund balances and current funds revenues, expenditures, and other changes. 9

Agency Reply: Disagree. The college believes the bookstore is a student operation rather than a college auxiliary enterprise. See page 49.

An annual inventory should be taken at June 30. 10

Agency Reply: Disagree. The college believes the bookstore is a student operation rather than a college auxiliary enterprise. See page 49.

Page

The inventory and receivables should be recognized in the college's accounting records. 10

Agency Reply: Disagree. The college believes the bookstore is a student operation rather than a college auxiliary enterpise. See page 49.

Investigate through contact with appropriate SBAS personnel as to why the keypunch error went undetected and the possible solutions to safeguard against future miscodings. 10

Agency Reply: Concur. See page 50.

Obtain formal written approval for expenditures which will cause it to exceed program appropriations. Under no circumstances, should errors be made intentionally to avoid obtaining required approval. 10

Agency Reply: Concur. See page 50.

The college should not alleviate the revenue bond problems by using appropriated funds to subsidize the operations of the dormitories. 11

Agency Reply: Concur. See page 50.

Utilities be charged to the particular area or program receiving the benefits. 11

Agency Reply: Concur. See page 50.

Comply with Section 3 of House Bill No. 271 which states "expenditures shall not exceed appropriations except as otherwise provided by approved budget amendment." 11

Agency Reply: Concur. See page 50.

Contact the Department of Administration and attempt to resolve the conflict between MAM Section 2-1420.00 and the AICPA industry audit guide. 12

Agency Reply: The college believes this is a state-wide problem. See page 51.

That portion of Memo 2-76-3 regarding supplies and materials should be complied with. 12

Agency Reply: Concur. See page 51.

Page

The college should not close its books for the year until all accruals have been recorded. As noted in the prior audit report the items being overlooked regarding accruals are basically utility bills. The college should take the necessary steps to ensure that utility bills are accrued at year-end. 12

Agency Reply: Concur. See page 51.

Arrange with the State Auditor to take all the steps necessary to incorporate its payroll into the central payroll system. College work-study employment should be an integral part of the inclusion. 13

Agency Reply: Concur, however, this is a system-wide concern and should be resolved by the Board of Regents. See page 51.

Require written documentation for payroll initiations, changes, and terminations. 14

Agency Reply: Concur. See page 51.

Time sheets should be used as a basis for computing gross payroll. Payrolls should not be processed until time sheets are complete and accurate. 14

Agency Reply: Concur. See page 51.

Ensure that all required documents are completed before issuing an employee's first paycheck. In no event should a deduction be made from a paycheck until all documents authorizing the deduction are complete and are in the employee's file. 15

Agency Reply: Concur. See page 52.

Maintain complete and detailed records regarding the accumulation and use of vacation and sick leave. Sick leave records should contain explanations justifying its use. Leave records should be periodically reviewed by a responsible official. 15

Agency Reply: Concur. See page 52.

Request clarification regarding the accrual of sick leave for teachers and professors. 15

Agency Reply: Concur. See page 52.

Page

Employees covered under the state pay classification system be paid accordingly. Support for wages paid other than those called for under the system should be documented in writing and retained in the employees' files. 16

Agency Reply: Do not concur. See page 52.

Retain all support indicating the amounts comprising allocations to various departments. 17

Agency Reply: Concur. See page 52.

Conduct a physical inventory of all property as soon as possible. For the more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed. 17

Agency Reply: Concur. See page 53.

Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the college should be deleted from the records. 18

Agency Reply: Concur. See page 53.

While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location. 18

Agency Reply: Concur. See page 53.

Procedures should be established in the business office to ensure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects. 18

Agency Reply: Concur. See page 53.

The textbook rental library should be recognized in the college's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value. 18

Agency Reply: Concur. See page 53.

The business office should perform all the accounting functions associated with the financial aid programs.

Page

Specifically, the business office, in addition to its existing financial aid duties, should:

(a) Perform all journalizing and general ledger positing.

(b) Receive and deposit all federal funds.

(c) Receive and deposit all National Direct Student Loan collections. 19

Agency Reply: Concur. See page 53.

Administration of the loan fund should be transferred to the financial aid office. That office is better able to establish criteria and determine financial need of the students. 20

Agency Reply: Concur. See page 54.

Loan repayments should be deposited intact and on a timely basis. Under no circumstances should employees' personal checks be used to cover loan payments. 20

Agency Reply: Concur. See page 54.

A record should be maintained listing individually all receipts deposited. 20

Agency Reply: Concur. See page 54.

The college should establish and assess a reasonable interest rate. At a minimum, a flat service charge such as $5 should be imposed. 20

Agency Reply: Concur. See page 54.

All loan activity should be accounted for through the regular accounting procedures of the college. 20

Agency Reply: Concur. See page 54.

Collection of delinquent loans should be actively pursued by the financial aid office. If collection is not made after a reasonable period of time, the accounts should be turned over to the Montana Department of Revenue for collection. Only after all avenues of collection have been used, should the account be written off. 20

Agency Reply: Concur. See page 54.

Page

Record the deposit in its accounting records in order that accountability for this asset can be maintained. 21

Agency Reply: Concur. See page 54.

A liability should be recognized for funds which revert to the donor and they should be returned as soon as possible. 21

Agency Reply: Concur. See page 55.

Revenues which do not belong in this fund should be accounted for in the proper fund. 21

Agency Reply: Concur. See page 55.

The student loan fund donation should be transferred to that fund. 21

Agency Reply: Concur. See page 55.

The fund with a negative balance should be investigated and appropriate corrective action taken. 22

Agency Reply: Concur. See page 55.

All restricted donations should be accounted for in a separate account. 22

Agency Reply: Concur. See page 55.

File and retain copies of the required Frontier Conference reports. 22

Agency Reply: Concur. See page 55.

The files of all students receiving financial aid should contain detailed and complete written documentation as to the methods and amounts used in calculating his or her need. This is particularly important where the need is increased over the amount computed by the computer service bureau. 22

Agency Reply: Concur. See page 55.

Consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements. 23

Agency Reply: Concur. See page 55.

Page

Transfer the necessary funds from the operating account and the Systems Repair Reserve to meet the required balances in the Sinking Fund Accounts. 24

Agency Reply: Concur. See page 56.

Future transfers to the Sinking Fund Account should be made on a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve. 24

Agency Reply: Concur. See page 56.

Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer. 25

Agency Reply: The college will discuss this matter with the State Treasurer. See page 56.

Take precautionary steps to ensure that it has a current statement of proof of insurance from Saga Food Service. 25

Agency Reply: Concur. See page 56.

Make the necessary entries at the time the bond principal is paid. 25

Agency Reply: Concur. See page 56.

Separate the 1966 and 1967 fund balances into two separate balances. 25

Agency Reply: Concur. See page 56.

Submit periodic reports of transactions and balances to agency fund controllers. 26

Agency Reply: Concur. See page 57.

The fund controllers should be instructed to carefully review these reports and investigate discrepancies immediately. 26

Agency Reply: Concur. See page 57.

	Page
All expense refunds should be credited to the appropriate expense accounts to which they were originally charged.	26
Agency Reply: Concur. See page 57.	
Establish a written receiving report. Bills should not be paid unless accompanied by the receiving report.	27
Agency Reply: Concur. See page 57.	
Since the business office has accounting control over the textbook rental library, books should not be returned to suppliers without its approval.	27
Agency Reply: Concur. See page 57.	

JANKE AND VAN DELINDER

CERTIFIED PUBLIC ACCOUNTANTS

JAMES N JANKE, CPA
DALLAS W VAN DELINDER, CPA
DARRELL E EHRLICK, CPA

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Western Montana College as of June 30, 1976, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Except as explained in the third and fourth paragraphs, our examination was made in accordance with generally accepted auditing standards and with applicable audit requirements set forth in the Guide for Audits of the State Student Incentive Grant Program and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Beginning July 1, 1975, the College recognized receivables arising from student deferred payment plans and deferred revenues in connection with summer fees. The effects of these changes are described in Note 2 to the financial statements.

Our tests of the investment in plant fund were limited to a review of activity for the three years ended June 30, 1976 and did not include a review of accumulated balances prior to July 1, 1973. Our tests revealed property disposed of is not deleted from accounting records; a physical inventory of properties has not been taken within the last fifteen (15) years; and books purchased for the textbook rental library were not capitalized. The amounts by which the financial statements would change if fixed assets were properly accounted for cannot practicably be determined. Because of the matters described in this paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet and statement of changes in fund balances of the Plant Funds.

The Student store is included in the agency fund portion of the balance sheet. Since the College has substantial control over the store's operations, in our opinion, it should be classified as an auxiliary enterprise with revenues, expenditures, and assets (including inventory) recognized in the appropriate financial statements. For the year ended June 30, 1976, the store had receipts and expenditures of $25,418 and $22,811, respectively. At August 1976, an unaudited physical inventory indicated a balance of $12,739.

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MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Textbook rental deposits and room deposits are also included in the agency portion of the balance sheet. In our opinion, the asset and corresponding liability arising from the deposits should be shown on the balance sheet under the category of current unrestricted funds. At June 30, 1976, the deposits totalled $13,034.

Except for the matters described in the preceding two paragraphs the aforementioned financial statements, excluding Plant Funds, present fairly the financial position of Western Montana College at June 30, 1976, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the recognition of receivables as described in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

December 10, 1976

C O M M E N T S

General

Western Montana College was established at Dillon by the Third Legislative Assembly in 1893. It was initially called the State Normal School at Dillon, and in 1965 the name was changed through legislation to Western Montana College. The College has been primarily oriented since its inception toward the training and education of elementary and secondary teaching personnel. Initially, the College offered a basic two-year program in education. In 1931, the State Board of Education approved a four-year course and a Bachelor of Education degree. Since that time, additional degrees have been authorized, including Bachelor of Science in Secondary Education, Master of Science in Education, Bachelor of Arts in History and English, and Associate of Arts and Science degrees.

The College is under the general control and supervision of the eight-member Board of Regents of Higher Education. A local three-member executive board is appointed by the Governor; however, this board is only advisory in nature.

The original campus is located on ten acres of land which were deeded to the College by Philip H. Poindexter and William C. and Rachel Orr in December, 1894. The ground was deeded "in Trust for the use and benefit of the State Normal School of the State of Montana." Most of the College's buildings are located on the original ten acres, but the College has since purchased property which increased the total property ownership to 34 acres.

The primary sources of revenue to operate the College come from the State's General Fund and University Millage accounts. Revenue is also generated from student fees, land grant income, and auxiliary enterprise operations. The nature and extent of the revenue from these various sources are depicted in the exhibits which are presented in the style and format unique to higher education.

Investment of College Funds

The College does not have an established investment policy or program. Except for investments held by the Trustee under the bond indentures, the College had no investments at June 30, 1976. The only significant investments noted during the audit period were a $40,000 certificate of deposit yielding 5 1/2% and a regular passbook savings account totalling approximately $18,000. During the year ended June 30, 1976, these investments were cashed and transferred to the State Treasurer.

The College appears to have considerable excess cash as shown on the balance sheet at June 30, 1976. Various constitutional and statutory provisions require the College's investment program to be operated by the State Board of Investments. The Board has established a short-term investment pool (STIP) which is available to the College. The pool's yield in the recent past has been greater than 6%. The Board has other available investment programs including the purchase of U.S. Government securities. (It should be noted

that funds on hand which are pledged to the bond indenture but not held by the Trustee can be invested only in securities which are general obligations of the United States or whose principal and interest payments are guaranteed by the United States. STIP cannot be used for these funds).

The Board can offer the College (1) higher returns on its investments and (2) full-time investment expertise. The latter is important because present business office personnel do not have the time to devote to the management of a sound investment program. In this regard, the Board of Regents (Board item 1-001-R0773, July 9, 1973) has endorsed the services of the Board of Investments.

Recommendation

We recommend the College establish an investment program with the State Board of Investments.

Cash Accounts and Related Items

Cash on Hand and in Banks

The College maintains a change fund of $6,000 and two local bank accounts. The bank accounts are used for (1) the student short-term loan fund and (2) the associated students agency account. Section 79-306, R.C.M. 1947, designates the State Treasurer as the treasurer for all State agencies. Management Memo 2-75-14, dated July 14, 1975, rescinded any prior authorizations for non-treasury bank accounts not issued in compliance with Management Memo 2-73-8. The aforementioned accounts and funds are not authorized non-treasury accounts. The College feels the total in the change fund is necessary to (1) cash work-study payroll checks which are used to pay students' room and board and (2) meet other cash requirements such as cashing miscellaneous checks and providing change.

Recommendation

We recommend the following:

(1) The College obtain approval from the Department of Administration to maintain non-treasury accounts or funds .

(2) The change fund be evaluated by appropriate personnel to determine if the fund balance could be reduced.

Outstanding Checks

At June 30, 1976, eighteen checks totalling $2,779 and ranging from 21 cents to $2,621 were listed as outstanding in the contingent revolving fund account. These checks had been written over one year ago. In addition, the check for $2,621 was in the possession of the business office. This check dated December 26, 1974 was payable to the Department of Health,

Education, and Welfare. It represented funds due the Department for amounts not expended in the work-study program. The check was sent to the Department and subsequently returned to the College with a letter stating in part "... In accordance with new policies and procedures established..., no cash is to be returned until all grants have been closed or terminated..."

Recommendation

We recommend the following:

(1) The smaller old outstanding checks should be investigated, and if conditions permit such action, they should be written off.

(2) The check representing the work-study refund should be voided. The College should then transfer the $2,621 to one of the following financial aid programs: National Direct Student Loan, College Work-Study, Supplemental Educational Opportunity Grants, or Basic Educational Opportunity Grants. This transfer would substitute as a receipt of Federal funds for the 1976-77 financial aid program.

General Ledger Control

At June 30, 1976 the total cash as recorded in several general ledger accounts did not reconcile to the total cash as recorded by the State Treasurer, cash on hand, and reconciled bank accounts. The difference was $368, and although not material in amount, does reveal a possible weakness in internal control. This difference had existed since the College transferred most of its funds to the State Treasurer in December 1975.

Recommendation

We recommend the difference be investigated and that in the future cash be reconciled on a monthly basis. Differences arising in the future should be resolved as quickly as possible.

Returned Checks

Checks deposited by the College and returned by banks for non-sufficient funds are not recognized in the College's accounting records.

Recommendation

Accounts receivable should be established when checks are returned by banks and maintained until such time as collection or other disposition of the checks has been made. The receivable should include any penalty which has been assessed by the bank.

Miscellaneous

The following miscellaneous internal control weaknesses were noted:

(1) Teller's daily close out sheets are not reviewed by a responsible official.

(2) Unused blank checks are kept in an unlocked box in the vault to which limited access is not maintained.

Recommendation

We recommend the following:

(1) Teller's daily close out sheets be periodically reviewed by a responsible official. A surprise review would be most desirable.

(2) The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature.

Student Fees

Deferred Payment Service Charges

In 1973, the Board of Regents continued the policy (Board item 3-004-R1273) permitting deferred payments of student fees and room and board charges. The policy provides for an administrative charge of $5 per quarter. Collections of this charge are recorded in a separate general ledger account which is classified on the balance sheet as an auxiliary enterprise. Collections for the 1975-76 year totalled $1,335 and at June 30, 1976 the account had an accumulated balance of $8,232. The manner in which the service charge should be accounted for is not defined in the Board's policy.

Recommendation

The College should request of the Board of Regents a policy which would serve as a guide in accounting for the revenues generated from the service charge and the type of expenditures eligible to be made from accumulated funds.

Deferred Fee Collections

The policy referred to in the preceding comment requires that deferred fees be paid within 60 days of the date of enrollment. At the end of any given quarter, all fees should be paid.

However, we found that all fees are not being paid with the 60 day limitation. In fact, fees relating to the fiscal year ending June 30, 1975 and

prior years are still unpaid at June 30, 1976.

Accounts Receivable

The revenues and related receivables arising from the deferral of student fees are not recognized in the College's accounting system. Unrecorded receivables at June 30, 1975 were $16,715 and $28,158 at June 30, 1976. As one of our audit adjustments these revenues and receivables have been recognized in the financial statements. Revenues relating to prior periods were recognized by adjustment to beginning fund balances.

The College does maintain records including control accounts and individual ledger cards; these records are periodically reconciled.

Recommendation

The receivables arising from the deferral of student fees should be incorporated into the College's present accounting system and the income should be recognized at the time the student elects to defer the charge.

Delinquent Accounts

Our analysis of accounts receivable at June 30, 1976 indicated balances of approximately $9,000 of which collectability is doubtful. In many instances the College does not pursue delinquencies on a timely basis or upon follow-up it is often found that the student is unable to make payment.

Recommendation

We recommend the following:

(1) The College should review on a timely basis students on a deferred fee payment plan to ensure that the fees are collected in accordance with Board of Regent's policy.

(2) Students who are unable to make deferred payments should be referred to the financial aids office. This office should attempt to evaluate the student's financial needs and seek to provide financial aid.

(3) The College should periodically age the accounts receivable and review the aging schedule for delinquent accounts. The delinquent accounts should be investigated and collection pursued.

(4) The College should establish an allowance for uncollectible accounts.

(5) If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue

for collection.

(6) When it appears the account will not be collected, it should be written off, but only after Department of Revenue approval.

Building Fees

Section 75-8503(2) of the Revised Codes of Montana, 1947, states in part that "...student building fees may be established to an aggregate amount not exceeding fifty dollars ($50) per student per academic year..." Non-resident building fees are not included in this limitation. Academic year refers to the autumn, winter, and spring quarters.

Presently, the College charges the following building fees: (1) Physical Education Building fee: $7 per quarter - $21 per academic year; (2) Student Union Building fee: $5 per quarter - $15 per academic year; (3) Building fee: $5 per quarter - $15 per academic year. The total of these fees is $51 per academic year.

Recommendation

The College should adjust its building fees to comply with the law.

Non-resident Building Fees

The Indenture for the Housing and Dining System Bonds of 1966 requires a charge of $22.50 per quarter for all students, who are not residents of the State of Montana, attending Fall, Winter or Spring quarters. This additional charge is identified as a non-resident building fee.

The College assesses this fee at the rate of $2.00 per credit from one through twelve credits. Consequently, those non-resident students taking less than twelve credits do not pay the required non-resident building fee.

Recommendation

The College should comply with the provisions of the Indenture and assess the full non-resident building fee of $22.50 per quarter to all non-resident students attending Fall, Winter, and Spring quarters without regard to the number of credits being taken by the student.

Accounting and Reporting Procedures

A number of deficiencies were noted in the prior audit report in the area of financial statement disclosures. Many of these deficiencies have been corrected and are reflected in the accompanying financial statements at June 30, 1976. We feel further improvement is needed in the following areas:

(1) A more detailed breakdown of investment in plant should be made on the balance sheet. Separate totals should be presented for (a) land, (b) land improvements, (c) buildings, (d) equipment, and (e) library books.

(2) Disclosure should be made of the fact that the State Department of Lands holds title to lands which produce substantial income to the College.

(3) The College's retirement plan and its commitment to the plan should be disclosed in notes to the financial statements.

(4) Other weaknesses are noted in the auditors' opinion on the financial statements found on pages 1 and 2 of this report.

The foregoing deficiencies are departures from generally accepted accounting principles and are of sufficient magnitude to warrant a qualified certified public accountant's opinion.

Recommendation

The College should continue its effort to comply with generally accepted reporting practices and procedures.

Student Store

The student store operations is presently classified as an agency account on the College's accounting records. The store was established primarily to provide goods and services to students, faculty and staff.

The store is an unincorporated business operated by College personnel and over which the College has substantial control. The American Institute of Certified Public Accountants' industry audit guide, Audits of Colleges and Universities, requires an operation such as the student store to be classified as an auxiliary enterprise.

The store does take an annual inventory; however, this inventory is usually taken sometime in August. From discussions with bookstore personnel, it appears that an inventory could be taken at June 30. The inventories are not presently recognized on the accounting records.

The store maintains charge slips for basically work-study students, and, hence, the store does have accounts receivable. These receivables are not recognized in the accounting records either.

Recommendation

We recommend the following:

(1) The College reclassify the student store to an auxiliary enterprise. The revenues and expenditures derived from its operations should be shown in the statements of changes in fund balances

and current funds revenues, expenditures, and other changes.

(2) An annual inventory should be taken at June 30.

(3) The inventory and receivables should be recognized in the College's accounting records.

Appropriations

Miscodings of Expenditures

In April 1976, Claim No. 1571 for $7,322.85 contained an apparent keypunch error which caused physical plant salaries to be coded to instructional salaries. This error was not discovered until our audit. The financial statements reflect the corrected expenditure allocation. The Statewide Budgeting and Accounting System (SBAS) Report for appropriated expenditures (Form 641) indicated the College was within its appropriation for the operation and maintenance of physical plant, when, in fact, the appropriation had been exeeded.

Claim No. 2027 for $3,886.01 was charged to library wages - student (academic support). The claim was for student wages in the instructional program and operation and maintenance of physical plant. From discussions with business office personnel, the expenditure was misclassified in order that the College would be able to remain within the respective program appropriations without obtaining formal written approval to exceed the appropriations. The financial statements were not adjusted to correct this misclassification.

Recommendation

(1) The College should investigate through contact with appropriate SBAS personnel as to why the keypunch error went undetected and the possible solutions to safeguard against future miscodings.

(2) The College should obtain formal written approval for expenditures which will cause it to exceed program appropriations. Under no circumstances, should errors be made intentionally to avoid obtaining required approval.

Utilities

During the year 1975-76 a substantial portion of the utility charges for the dormitories were paid with State appropriated funds. These charges should have been paid with dormitory funds. This practice was justified by the Business Office because of problems meeting the earnings requirements of the bond indenture. (See discussion at page 23 of this report regarding revenue bonds).

Recommendation

The College should not alleviate the revenue bond problems by using appropriated funds to subsidize the operations of the dormitories.

We recommend utilities be charged to the particular area or program receiving the benefits.

Scholarships and Fee Waivers

House Bill No. 271 appropriated $41,832 to scholarships and fellowships for the 1975-76 year. During the year, the College awarded students fee waivers totalling $54,315. The waivers exceeded the appropriation by $12,483. These waivers were awarded for the following purposes: (1) high school honor scholarships; (2) athletics; (3) non-residents; (4) advanced honor scholarships; (4) war orphans; (5) Indians; (6) veterans; and (7) senior citizens.

No actual funds are exchanged regarding the waivers. College officials report that in the case of high school honor scholarships, the amounts of the awards are beyond their control. The waivers are included in the financial statements as fee income and financial aid expenditures.

Recommendation

Even though the College does not have control over certain aspects of the scholarship program and no funds are involved, the College should comply with Section 3 of House Bill No. 271 which states "expenditures shall not exceed appropriations except as otherwise provided by approved budget amendment."

Accrual of Expenditures at Year-end

The Department of Administration Management Memo 2-76-3 regarding year-end accruals states in part that "...MAM Section 2-1420.00 will apply with the exception of 2-1420.34 that which relates to materials and supplies. Materials and supplies must be accounted for in the year in which they are received..." MAM Section 2-1420.00 requires encumbrances on capital asset purchases to be accrued even though the equipment is not on hand at year-end. The AICPA audit guide requires encumbrances representing outstanding purchase orders and other commitments for only those materials or services received by the reporting date to be reported as expenditures and to be included as liabilities on the balance sheet. There is a direct conflict between the Montana Administrative Manual and the audit guide.

In connection with the preceding paragraph the following discrepancies were noted:

(1) Certain supplies totalling $4,207.92 which had been encumbered at June 30, 1976, but had not been received at that date were included

in year-end accounts payable.

(2) Only a portion of the June 1976 electricity bill was accrued at year-end. The total bill was $5,723.46; the amount accrued was $1,101.40.

(3) The workmens compensation bill of $2,749.70 for second quarter 1976 was not accrued at June 30, 1976.

(4) The water and sewer bill of $1,325.00 for second quarter 1976 was not accrued at June 30, 1976.

(5) Capital assets totalling $8,930.76 were accrued at June 30, 1976 even though the assets had not been received at that date. This is in compliance with MAM Section 2-1420.00 but not in accordance with the AICPA audit guide.

The financial statements were not adjusted for these discrepancies.

Recommendation

We recommend the following:

(1) The College should contact the Department of Administration and attempt to resolve the conflict between MAM Section 2-1420.00 and the AICPA industry audit guide.

(2) That portion of Memo 2-76-3 regarding supplies and materials should be complied with.

(3) The College should not close its books for the year until all accruals have been recorded. As noted in the prior audit report the items being overlooked regarding accruals are basically utility bills. The College should take the necessary steps to ensure that utility bills are accrued at year-end.

Personal Services and Related Items

Personal services consisting of wages and the related benefits constitute the major portion of the College's expenditures. During the year ended June 30, 1976, personal services expenditures totalled $1,483,077 which amounted to approximately 70% of the College's total unrestricted and restricted expenditures. The expenditures are for the following personnel: (1) full-time instructional, administrative and general, library staff, and plant maintenance; (2) student help and Work-Study program; (3) student teacher supervisors and special lecturers or instructors; (4) college faculty who teach extension courses; and (5) administrative personnel in the financial aid programs.

Our review of these areas indicated several weaknesses in the accounting and administration procedures. The following comments pertain to these weaknesses.

Central Payroll System

The College payroll, except for off campus work-study payroll, is prepared by the business office each month in the form of a claim document. The claim is sent to Helena where it is processed through SBAS and warrants are prepared. The warrants are returned to the College for distribution to employees. In order to achieve a reasonable "turn-around" time on the regular full-time employees' payroll, the business office must prepare the claims approximately the middle of the month for salaries and wages through the end of the month. The preparation of this claim assumes that employees will work the entire month and, hence, processes payroll before the fact. Inclusion in the central payroll system would correct the situation because the system operates on an after the fact basis.

Each claim processed for payroll also generates warrants for payment of payroll deductions such as federal and state tax withholding, social security withholding, public employees' retirement withholding, teachers' retirement withholding, and employee insurance withholding. The College subsequently prepares the necessary reports and files them along with the warrants. This process appears to be costly and time-consuming. For example, the state withholding report is quarterly; consequently, several warrants when one would be sufficient accompany the report. Inclusion of the College in central payroll system would eliminate this problem.

The College has limited accounting personnel and inclusion of payroll within the central payroll system would free some personnel to devote more time to other areas of payroll which need strengthening. These areas are discussed in the following comments.

It is our understanding from discussions with College officials that the central payroll system, as presently designed, is not equipped to accommodate the student work-study employment program.

Since the College's major area of expenditure is for personnel services, it is important that constructive steps be taken to improve payroll procedures. The central payroll system under the administration of the State Auditor is available to the College. It was recommended by the prior audit that the College make use of this system. We renew that recommendation.

Recommendation

The College should arrange with the State Auditor to take all the steps necessary to incorporate its payroll into the central payroll system. College work-study employment should be an integral part of the inclusion.

Internal Control

Payroll Initiations, Changes, and Terminations

One condition for good internal control is to have written documentation supporting payroll initiations, changes, and terminations. The following weakness was noted: Employment applications are not used. The applications should be used to determine qualifications and justify the hiring of one person verus another. The applications can provide the College with needed data regarding the employee, including his or her signature.

Recommendation

The College should require written documentation for payroll initiations, changes, and terminations.

Documentation for Support of Wages Paid

Proper written documentation should be required and retained to support the amount of wages paid. In this connection, the following weaknesses were noted:

(1) Except for student salaries time sheets for wages paid to hourly employees do not necessarily correspond to the payroll period.

(2) One employee's time sheet was not signed by either the employee or his supervisor.

Recommendation

Time sheets should be used as a basis for computing gross payroll. Payrolls should not be processed until time sheets are complete and accurate.

Documentation for Other Payroll Related Items

Incomplete records were noted in two other areas of payroll related items.

(1) The document, Amendment to Contract of Employment which supports payroll deductions for annuities was not always complete. At least five instances were noted where the documents were not

complete as to amounts to be deducted nor had they been certified as required by the Office of the Commissioner of Higher Education.

(2) The document designating the person authorized to receive a decedent's warrant was missing from three employees' files.

Recommendation

The College should ensure that all required documents are completed before issuing an employee's first paycheck. In no event should a deduction be made from a paycheck until all documents authorizing the deduction are complete and are in the employee's file.

Vacation and Sick Leave

The manner and amount of vacation and sick leave available to state employees is governed by State law and administrative guidelines. As noted in the prior audit report, the College does not maintain adequate written records regarding the accumulation and use of vacation and sick leave.

Although we noted only one computation error in the accrual of sick leave, our tests of employee files indicated that postings were not always made to the leave records. The records are not always maintained in sufficient detail so that problems such as improper, repetitious, or excessive use of sick leave credits can be discovered and corrected. In addition, from our discussions with College personnel, it appears that current laws and administrative guidelines state that sick leave need not be accrued for teachers or professors. This appears to be in direct conflict with the most recent collective bargaining agreement which states that sick leave must be accrued. A Board of Regents policy (Item 11-011-R0376, dated 3/23/76) states that all faculty shall earn sick leave credits at the rate of one working day for each month of service. Heretofore, the College has not maintained sick leave records for the faculty. The College informed us that it was waiting for clarification regarding the conflict.

Recommendation

We recommend the following:

(1) The College should maintain complete and detailed records regarding the accumulation and use of vacation and sick leave. Sick leave records should contain explanations justifying its use. Leave records should be periodically reviewed by a responsible official.

(2) The College should request clarification regarding the accrual of sick leave for teachers and professors.

Other Payroll Related Areas

Improper Pay

One instance was noted where a part-time custodial worker in the dormitories was paid a wage less than the amount called for in the State pay classification system. College personnel contended that because the worker was less than full-time he was outside the requirement of the system. However, no written documentation could be located to support this contention.

Recommendation

We recommend that employees covered under the State pay classification system be paid accordingly. Support for wages paid other than those called for under the system should be documented in writing and retained in the employees' files.

Student Payroll Allocations

The College manually calculates the allocation of student payroll listings to the various departments such as library and physical plant. No support is retained to indicate which payroll amounts comprise a particular allocation. Without this support, subsequent review becomes difficult.

Recommendation

The College should retain all support indicating the amounts comprising allocations to various departments.

Plant, Property and Equipment

As discussed in our opinion to the financial statements on pages 1 and 2 of this report, the College does not properly account for its investment in plant. Property purchased is often not added to the records and property disposed of is not deleted.

Inadequacies observed in the College's property control procedures are of such magnitude that no assurance exists that state-owned property is in the custody of the College and that amounts reported in financial statements are reliable.

A list of property is maintained but it does not show the location of the property nor are individual property items identified by a number which can be traced back to the list. A physical inventory has not been taken since July 1960. Management Memo 70-17, dated June 26, 1970, requires a physical inventory of all fixed assets to be taken annually, preferably at June 30.

Primary accounting, during the construction period for all projects costing more than $3,000, is done by the Architecture and Engineering Bureau of the Department of Administration. During construction the College receives from the Bureau periodic reports listing in detail expenditures by category. At the completion of the project the College receives a final report recapping all expenditures for the project. As noted in the prior audit report, the College failed to record a building construction project valued at $890,748. Recording of construction projects since June 30, 1973 were included in our audit adjustments for the year ended June 30, 1976.

The College purchases textbooks and rents them to students who must pay a textbook rental fee and damage deposit. Students do have the option to purchase the books. Our observation of the library indicates a significant textbook inventory. However, these books are not recorded on the College's accounting records. We were advised that an annual physical inventory of these books is taken but that a dollar value is not computed.

Recommendation

We recommend the following:

(1) The College should conduct a physical inventory of all property

as soon as possible. For the more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed.

(2) Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records.

(3) While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location.

(4) Procedures should be established in the business office to ensure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects.

(5) The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value.

Student Financial Aid

Internal Control

Considerable improvement is needed in internal control of a significant portion of the financial aid program. Until recently, the financial aid director, in addition to his administrative responsibilities, had nearly complete control over the entire accounting for financial aid from writing checks to general ledger posting. During the year ended June 30, 1976, the cash was transferred to the State Treasurer. Expenditures in the financial aid programs are now paid by State warrants. However, the director still performs or is responsible for a significant number of the accounting functions. Some of these functions are as follows:

(1) Posting of the general ledger

(2) Receipt and deposit of Federal funds

(3) Receipt and deposit of National Direct Student Loan collections

The objective of internal accounting control is to provide reasonable but not absolute assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. This objective is accomplished, within practical limitations, through division of responsibilities and duties.

Several accounting errors required adjustment at June 30, 1976; these errors appear to be the result of the weak internal control situation and

are listed as follows:

(1) A work-study payroll of $1,220 in January 1976 had not been posted to the general ledger.

(2) A non work-study payroll of $16 was posted to the work-study general ledger.

(3) A work-study payroll of $78 had been posted to the general ledger three times.

Recommendation

The business office should perform all the accounting functions associated with the financial aid programs. Specifically, the business office, in addition to its existing financial aid duties, should:

(a) Perform all journalizing and general ledger posting.

(b) Receive and deposit all Federal funds.

(c) Receive and deposit all National Direct Student Loan collections.

Short-term Loan Fund

This fund is not under the administration of the financial aid office. The fund is entirely administered and accounted for by the business office. The prior audit report revealed numberous weaknesses in internal control, several of which were still evident at June 30, 1976. Corrective action was taken in early 1976 to require dual signatures on all loan disbursements. We commend the College for this action. However, significant weaknesses still exist.

(1) Until recently receipts were not pre-numbered and items comprising a deposit were not listed individually. It was not possible to reconcile deposits back to individual receipts.

(2) Deposits are not always made on a timely basis. For example a loan payment of $30 received on June 24, 1976 was not deposited until November 5, 1976. This is a period of nearly five months.

(3) Review of deposit slips indicates that in many instances deposits of loan payments may have been made by a College employee's personal check.

(4) The College does not assess any interest.

(5) The records do not reveal whether the loans were based on need or any other established criteria.

(6) Loan transactions are not processed through the regular accounting system of the College.

(7) The College Catalog states that loan repayments are usually to be made during the quarter the money is borrowed. This would mean that at June 30, 1976, the loan balance should be nil. However, there was a balance of $5,364. Included in this total were the accounts of ten students with loan balances totalling $1,829 which had no activity during the fiscal 1975-76 year.

Recommendation

We recommend the following:

(1) Administration of the loan fund should be transferred to the financial aid office. That office is better able to establish criteria and determine financial need of the students.

(2) Loan repayments should be deposited in tact and on a timely basis. Under no circumstances should employees' personal checks be used to cover loan payments.

(3) A record should be maintained listing individually all receipts deposited.

(4) The College should establish and assess a reasonable interest rate. At a minimum, a flat service charge such as $5 should be imposed.

(5) All loan activity should be accounted for through the regular accounting procedures of the College.

(6) Collection of delinquent loans should be actively pursued by the financial aid office. If collection is not made after a reasonable period of time, the accounts should be turned over to the Montana Department of Revenue for collection. Only after all avenues of collection have been used, should the account be written off.

United Student Aid Loan Deposit

The College has $4,112 deposited with United Student Aid Funds, Inc. This is a private corporation engaged in a student loan program. Western did participate in this program, but has not done so for several years. This deposit is a reserve for bad debts on student loans. The deposit is not recorded on the College's accounting records or recognized in the financial statements.

The deposit is refundable to the College after all loans have been repaid and the College has officially withdrawn from the program. If all loans have not been repaid when the College withdraws, a rather complex formula

is used to determine the refundable amount. At June 30, 1976, there were loans totalling $7,283 covered by the deposit. Of these loans, $2,667 were delinquent.

Recommendation

The College should record the deposit in its accounting records in order that accountability for this asset can be maintained.

Scholarship Fund

The Scholarship Fund has a balance at June 30, 1976 of $7,765. However, certain items included in this balance are not available as scholarship funds. In addition, transactions accounted for in this fund should be recorded elsewhere. The manner of handling the following items should be changed:

(1) Unexpended Bureau of Indian Affairs Grants are refundable to the Bureau. These unexpended grants totalled $554 at June 30, 1976. The liability was not recognized at June 30, 1976 and the funds had not been returned to the Bureau at December 10, 1976.

(2) Unexpended grant funds upon completion of the "training new teacher" grant were to be used by the College at its discretion. At June 30, 1976 the program had been completed. The remaining funds totalled $1,828.

(3) A donation to the student loan fund of $20 was included in the scholarship fund.

(4) One scholarship fund had a negative balance of $75.

(5) Miscellaneous revenues are being credited to this fund. An example is the $3.75 application fee for financial aid.

(6) A separate subsidiary fund was not established for contributions totalling $250; these funds were restricted for athletic awards.

Recommendation

We recommend the following:

(1) A liability should be recognized for funds which revert to the donor and they should be returned as soon as possible.

(2) Revenues which do not belong in this fund should be accounted for in the proper fund.

(3) The student loan fund donation should be transferred to that fund.

(4) The fund with a negative balance should be investigated and appropriate corrective action taken.

(5) All restricted donations should be accounted for in a separate account.

Athletic Scholarship Report

Section 8 of the by-laws of the Frontier Athletic Conference states:

> "At the end of the academic year and not later than July 1, each member institution shall prepare a financial aid report listing the names of all student-athletes receiving financial aid from the institution. The report shall show the total aid per student, the total aid per sport and the total aid awarded by the institution to athletes during the academic year. The report shall be authenticated by the President of the institution and forwarded to the Frontier Conference office."

College officials were unable to locate a copy of a report which would satisfy the requirements of Section 8.

Recommendation

The College should file and retain copies of the required Frontier Conference reports.

State Student Incentive Grant Program

The State Student Incentive Grant authorization (Title IV-A-3 of the Higher Education Act, as amended by P.L. 92-318) provides 50-50 matching to stimulate State scholarships for undergraduates with substantial financial need. The program is administered by designated State agencies. The State agency in Montana is the Office of the Commissioner of Higher Education. The College participated in this program for the first time during the year ended June 30, 1976. In accordance with requirements set forth in the Guide for Audits of the State Student Incentive Grant Program issued by the Department of Health, Education, and Welfare, we performed certain audit procedures to ensure compliance with applicable parts of the program.

Our tests of student files indicated one student whose need had been increased by $1,476 over what the computer service bureau had calculated to be his total need. The file contained little written documentation as to why his need had been increased.

Recommendation

The files of all students receiving financial aid should contain detailed and complete written documentation as to the methods and amounts used in calculating his or her need. This is particularly important where the need is increased over the amount computed by the

computer service bureau.

Note: For further comments regarding the College's financial aid programs, refer to our audit report, filed under separate cover, which encompasses the National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants Programs.

Bond Issues

Financial Status - 1966 Bond Issue

As noted in the prior audit reports, the 1966 bond issue remains in financial jeopardy. Pledged revenues have not been sufficient to meet the requirements of the bond indenture and if the past and present trends continue, substantial amounts of outside funds will have to be committed to meet future principal and interest payments.

Net earnings for the year ended June 30, 1976, were $71,146. The total principal and interest paid during this period was $76,902. Earnings were higher in fiscal year 1975-76 because utilities, normally charged to the residence halls, were paid from physical plant funds.

The deficit was made up by transferring unpledged land grant income totalling $37,352. The College cannot rely on future deficits to be corrected through use of these funds as they are not pledged for this purpose.

Recommendation

The College should consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements.

Reserve Requirements - 1966 Bond Issue

In connection with the foregoing comment, the College is required to maintain with the Trustee, sinking fund accounts for each of Series A through D and a Systems Repair Reserve. The College's 1966 revenue bond operating account at June 30, 1976 had a balance of $108,861 and the Systems Repair Reserve had a balance of $124,777. The four sinking fund accounts did not have the required balances at June 30, 1976 nor were transfers into these accounts made on a timely basis. The accounts and applicable balances are as follows:

	June 30, 1976		
	Actual Reserves	Required Reserves	Deficit
Series A	$ 25,465	$ 38,875	$ 13,410
Series B	(3,015)	14,958	17,973
Series C	(12,719)	16,656	29,375
Series D	(25,180)	29,818	54,998
	(15,449)	100,307	115,756

The bond indenture requires neither the operating account or the Systems Repair Reserve to have a definite balance. During the fiscal year 1975-76, the Trustee (First National Bank and Trust Company of Helena, MT) deposited all transfers from the College's operating account and part of the land grant income transfer into the Systems Repair Reserve.

The indenture requires deposits to be made from the operating account to the sinking fund accounts at specified times throughout the year. Only after the required deposits to the four sinking fund accounts have been made, should deposits be made to the Systems Repair Reserve. Furthermore, Section 5.06 of the indenture states in part: "...in the event the funds in the Sinking Fund Account should be insufficient to meet principal and/or interest on bonds payable therefrom or should be reduced below the debt service reserves after said reserves have once been accumulated, funds on deposit in the System Repairs Reserve shall be transferred to the Sinking Fund Account to the extent required to eliminate the deficiency in that Account..."

Recommendation

We recommend the following:

(1) The College should transfer the necessary funds from the operating account and the Systems Repair Reserve to meet the required balances in the Sinking Fund Accounts.

(2) Future transfers to the Sinking Fund Account should be made on a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve.

Retirement of Bonds - 1966 and 1967 Issues

The College periodically deposits with the Trustee (First National Bank and Trust Company of Helena, MT), amounts which are to retire bond principal and interest as they become due. Approximately 15 days prior to the due date, the Trustee remits to the Montana State Treasurer the amount of interest and/or principal which is to be paid.

Two problems were noted during our audit of the revenue bonds. These are as follows:

(1) The 1967 bond issue has a principal and interest due date of July 1. Using the aforementioned procedure, the principal and interest due at July 1, appears on the Trustee report as having been paid as of June 30, the College's fiscal year-end.

(2) The cancelled bonds and/or interest coupons are initially handled by the State Treasurer and State Auditor before they are returned to the Trustee. During our audit for the year ended June 30, 1976,

the cancelled bonds and interest coupons paid July 1, 1975 had not been returned to the Trustee by early November 1976. In fact, during our initial visit to the State Auditor's office these bonds and coupons could not be located.

In our opinion, the present situation creates an unnecessary duplication of effort and dimishes the control over the paid bonds and coupons.

Recommendation

Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.

Proof of Insurance - 1966 Bond Issue

The College contracts with Saga Food Service to provide meals to students living in the dormitories. The contract requires Saga to provide the College with proof of insurance regarding liability and other coverage limits. When questioned initially, the College did not have on hand a current statement from Saga regarding its insurance coverages at Western. However, the College did request and receive this statement prior to the completion of our audit work.

Recommendation

The College should take precautionary steps to ensure that it has a current statement of proof of insurance from Saga Food Service.

General Ledger - 1966 and 1967 Bond Issues

The following weaknesses were noted regarding the College's General Ledger.

(1) The liability on the bond indentures had not been reduced for payments of bond principal since June 30, 1973.

(2) In the retirement of indebtedness fund, only one fund balance account is maintained for both the 1966 and 1967 bond indenture.

Recommendation

We recommend the following:

(1) The College should make the necessary entries at the time the bond principal is paid.

(2) The College should separate the 1966 and 1967 fund balances into two separate balances.

Note: For further comments regarding the two bond issues, refer to our audit report of the Revenue Bonds filed under separate cover.

Agency Funds

Our review of the various agency funds for which the College's business office provides accounting assistance and serves as custodian indicates weak control. The following are examples which indicate weaknesses:

(1) An arithmetical check for the fiscal year 1975-76 of two funds, the Wescolite and Student Activity Fee, indicated that these two funds were out of balance by identical amounts.

(2) Verbal confirmation on a test basis of fund balances as of June 30, 1976 indicated that most fund controllers had little knowledge of what should be their organization's fund balance.

Recommendation

We recommend the following:

(1) The College should submit periodic reports of transactions and balances to agency fund controllers.

(2) The fund controllers should be instructed to carefully review these reports and investigate discrepancies immediately.

Miscellaneous

Reimbursement

We noted several instances where refunds of previously expensed items were credited to revenues. Although the net effect is nil, the incorrect postings affect comparability of specific accounts. Two examples of these postings are (1) insurance and travel expense refunds in the Athletic Department were credited to "athletic program - other revenue" account, and (2) workmen's compensation insurance refunds were credited to miscellaneous collections account.

Recommendation

All expense refunds should be credited to the appropriate expense accounts to which they were originally charged.

Receiving Reports

The College presently has no formal receiving report. Although we observed no instances where bills were paid twice, the assistant business manager

believes that since a formal report is lacking the possibility does exist where a bill could be paid twice. We concur with him.

Recommendation

The College should establish a written receiving report. Bills should not be paid unless accompanied by the receiving report.

Returned Books

Unneeded books in the textbook rental library are returned to supplies without the approval of the business office. In most instances, the first notification that the business office receives is a credit memo from the supplier. As a result, internal and accounting controls are weak in this area.

Recommendation

Since the business office has accounting control over the textbook rental library, books should not be returned to suppliers without its approval.

Prior Audit Findings

In addition to the foregoing comments, certain items were mentioned in the prior audit report which do not appear to be significant weaknesses at June 30, 1976. The following comments relate to those findings.

College Accounting and the Statewide Budgeting and Accounting System

The prior audit report recommended the College consult with the Department of Administration in order to devise an accounting system for the College within the Statewide Budgeting and Accounting System. The College has made significant progress in this area.

Control over Cash - Collateral Pledged by Depositories

The prior audit report recommended the College establish procedures to ensure that the College deposits in local bank accounts are properly collateralized by Section 79-301, R.C.M. 1947. Since that time, almost all College funds have been transferred to the State Treasurer. Our review of this area revealed no exceptions to proper collateralization.

Accounting and Reporting Procedures - Interest Income

The prior audit report recommended the College record investment transactions in accordance with generally accepted accounting principles. During fiscal year 1975-76, the College, except for those investments maintained by the Trustee, did not have any new investments to record.

Student Financial Aid - Athletic Scholarships

The prior audit report recommended that the food service contract be amended to delete the provision for board scholarships. The present contract does not contain this provision.

Bond Issues - Annual Audits

The prior audit report recommended the College contract with an independent public accountant to audit the 1966 bond accounts in accordance with the bond indenture. This is now being done.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Western Montana College.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

December 10, 1976

FINANCIAL STATEMENTS

WESTERN MONTANA COLLEGE
Balance Sheet
June 30, 1976

ASSETS

Current Funds -	
Unrestricted:	
Educational and General:	
Cash on hand	$ 6,000
Cash in bank	2,326
Cash with State Treasurer	37,797
Accounts receivable, net of allowance for doubtful accounts of $2,800 (Note 2)	4,098
Due from other funds	4,096
Total	54,317
Auxiliary Enterprises (Note 8):	
Cash	162,906
Accounts receivable, net of allowance for doubtful accounts of $5,500 (Note 2)	12,501
Due from other funds	12,081
Total	187,488
Total unrestricted	241,805
Restricted:	
Cash	10,063
Due from other funds	317
Total restricted	10,380
Total current funds	252,185

LIABILITIES AND FUND BALANCES

Current Funds -	
Unrestricted:	
Educational and General:	
Accounts payable	$ 26,834
Due to other funds	317
Deferred revenue (Note 2)	12,927
Fund balance (Note 2)	14,239
Total	54,317
Auxiliary Enterprises:	
Fund balance (Note 2)	187,488
Total	187,488
Total unrestricted	241,805
Restricted:	
Accounts payable	458
Due to other funds	586
Fund balance	9,336
Total restricted	10,380
Total current funds	252,185

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - continued
June 30, 1976

ASSETS	
Loan Funds:	
Cash in bank	$ 5,480
Cash with State Treasurer	24,738
Loans receivable:	
Short-term loans from students	5,364
National Direct Student Loan Program (Note 3)	589,397
Total loan funds	624,979

LIABILITIES AND FUND BALANCES	
Loan Funds:	
Due to other funds	$ 3,510
Fund balances (Note 7)	621,469
Total loan funds	624,979

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - continued
June 30, 1976

ASSETS

Plant Funds -		
Unexpended:		
State appropriation allocated for future campus improvement (Note 4)	$	57,991
Renewal and Replacement:		
Cash with State Treasurer		17,760
Deposits with Trustee (Note 5)		107,017
Total renewal and replacement		124,777
Retirement of Indebtedness:		
Cash with State Treasurer		25,744
Deposits with Trustee (Note 5)		182,629
Accounts receivable, net of allowance for doubtful accounts of $800 (Note 2)		1,074
Total retirement of indebtedness		209,447
Investment in Plant:		
Land, buildings, equipment and library books (Note 6)		6,037,738
Construction in progress (Note 4)		4,009
Total investment in plant		6,041,747
Total plant funds		6,433,962

LIABILITIES AND FUND BALANCES

Plant Funds -		
Unexpended:		
Fund balance (Note 4)	$	57,991
Renewal and Replacement:		
Fund balance		124,777
Total renewal and replacement		124,777
Retirement of Indebtedness:		
Fund balance (Note 2)		209,447
Total retirement of indebtedness		209,447
Investment in Plant:		
Bonds payable (Note 8)		1,710,000
Fund balance (Note 6)		4,331,747
Total investment in plant		6,041,747
Total plant funds		6,433,962

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - concluded
June 30, 1976

ASSETS	
Agency Funds -	
Cash in bank and on hand	$ 4,300
Cash with State Treasurer	28,040
Accounts receivable, net of allowance for doubtful accounts of $700	686
Total agency funds	33,026

LIABILITIES AND FUND BALANCES	
Agency Funds -	
Due to other funds	$ 12,081
Deposits and receivables held in custody for others	20,945
Total agency funds	33,026

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE

Statement of Changes in Fund Balances

Year Ended June 30, 1976

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions:							
Educational and general revenues	$1,661,633						
Auxiliary enterprises revenues (Note 8)	336,223						
Grants and gifts		$287,792					
U.S. Government advances			$ 45,861				
State appropriations			5,096				
Interest on loans receivable			8,670				
Investment income - restricted					$ 4,638	$ 10,949	
Building fees						35,449	
Construction projects accounted for by the Architecture and Engineering Bureau of the Department of Administration				$ 62,000			
Expended for plant facilities (includidng $42,888 charged to current funds expenditures)							$ 58,740
Retirement of indebtedness							56,000
Total revenues and other additions	1,997,856	287,792	59,627	62,000	4,638	46,398	114,740

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Changes in Fund Balance - continued
Year Ended June 30, 1976

	Current Funds		Loan	Plant Funds			
	Unrestricted	Restricted	Funds	Unexpended	Renewals and Replacements	Retirement of Idebtedness	Investment in Plant
Expenditures and Other Deductions:							
Educational and general expenditures	$1,588,607	$286,417					
Auxiliary enterprises expenditures (Note 8)	280,153						
Indirect costs recovered		586					
Refunded to grantors				$ 110			
Loan cancellations			$ 31,067				
Administrative and collection costs			6,066				
Miscellaneous deductions						$ 4,133	
Expended for plant facilities				15,852			
Retirement of indebtedness						56,000	
Interest on indebtedness						58,090	
Total expenditures and other deductions	1,868,760	287,003	37,133	15,962		118,223	

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Changes in Fund Balances - concluded
Year Ended June 30, 1976

	Current Funds		Loan Funds	Plant Funds			
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers Among Funds - Additions (Deductions):							
Mandatory:							
Principal and interest	$ (37,353)					$ 37,353	
Building fees revenues allocated					$ 29,665	(29,665)	
Transfer of land grant income to plant funds - retirement of indebtedness	(37,353)					37,353	
Total transfers	(74,706)				29,665	45,041	
Net increase (decrease) for the year	54,390	789	22,494	46,038	34,303	(26,784)	114,740
Fund balance at beginning of year	147,337	8,547	598,975	11,953	90,474	236,231	4,217,007
Fund balance at end of year	201,727*	9,336	621,469	57,991	124,777	209,447	4,331,747

* See Note 9 to Financial Statements.

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes
June 30, 1976

	Unrestricted	Restricted	Total
Revenues -			
Educational and General:			
Student Fees:			
Registration	$ 34,579		$ 34,579
Incidental	159,712		159,712
Non-resident	38,847		38,847
Other	9,336		9,336
Total	242,474		242,474
State Governmental Support:			
General fund	1,132,593		1,132,593
Millage fund	200,377		200,377
Interest and income - land grant fund	74,812		74,812
Total	1,407,782		1,407,782
Federal government grants		$ 262,395	262,395
Gifts and private grants		21,584	21,584
State student incentive grant program		3,227	3,227
Indirect costs reimbursed	4,831		4,831
Miscellaneous collections	6,546		6,546
Total educational and general	1,661,633	287,206	1,948,839
Auxiliary Enterprises:			
Food service	150,428		150,428
Rental income	99,853		99,853
Student health service	16,559		16,559
Athletic program	26,450		26,450
Textbook rental library	20,544		20,544
Student class materials	9,849		9,849
Athletic camps	7,448		7,448
Other	5,092		5,092
Total	336,223		336,223
Total revenues	1,997,856	287,206	2,285,062

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes - continued
June 30, 1976

	Unrestricted	Restricted	Total
Expenditures and Mandatory Transfers -			
Educational and General (Note 10):			
Institution	$ 776,996	$ 38,997	$ 815,993
Academic support	113,643	35,342	148,985
Student services	145,149	6,323	151,472
Institutional support	128,400		128,400
Operation and maintenance of plant	368,074	37,967	406,041
Student aid	55,645	167,788	223,433
Bad debts	700		700
Educational and general	1,588,607	286,417	1,875,024
Mandatory transfers for:			
Principal and interest	37,353		37,353
Total educational and general	1,625,960	286,417	1,912,377
Auxiliary Enterprises:			
Expenditures:			
Food service	134,236		134,236
Rental expenses	62,285		62,285
Student health services	13,899		13,899
Athletic program	43,867		43,867
Textbook rental library	15,373		15,373
Student class materials	4,933		4,933
Athletic camps	2,231		2,231
Other	829		829
Bad debts	2,500		2,500
Total auxiliary enterprises	280,153		280,153
Total expenditures and mandatory transfers	1,906,113	286,417	2,192,530
Transfer of land grant income to plant funds - retirement of indebtedness	(37,353)		(37,353)
Net increase in fund balances	54,390	789	55,179

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Western Montana College have been prepared on the accrual basis (See Note 2) except for investment in plant, depreciation accounting, and allowance for uncollectible loans as explained in Notes 3 and 6 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2 - Changes in Accounting Methods

Accounts Receivable and Allowance for Doubtful Accounts

The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, receivables at June 30, 1976 have been recognized as income and appropriate adjustments have been made to July 1, 1975 fund balances to reflect receivable balances at that date. July 1, 1975 fund balances were increased by the following amounts:

Fund Balance	Increase
Current Unrestricted:	
Educational and general	$ 4,385
Auxiliary enterprises	4,394
Retirement of indebtedness	917

Deferred Registration and Incidental Fees - Summer

Prior to July 1, 1975, the College recognized revenues from summer session registration and incidental fees as they were received. In accordance with the American Institute of Certified Public Accountants' Industry Audit Guide for Colleges and Universities, the fees are currently reported totally within the fiscal year in which the program is predominantly conducted. The change decreased the unrestricted educational and general fund balance at July 1, 1975 by $19,993.

Note 3 - Loans Receivable - National Direct Student Loan Program

No provision for uncollectible National Direct Student loans have been provided for in the accompanying financial statements. The following statistics were provided to the Department of Health, Education, and Welfare in the annual report of the financial aid programs:

Student loans receivable	$ 589,397
Deduct total value of loans not in repayment status (grace period, armed forces, Peace Corps, Vista, student status, hardship)	261,749
Total student loans receivable in repayment status	327,648

First Computation

Total loans current (120 days or less)	$ 290,036
Total delinquent (in arrears 121 days or more)	37,612
Percentage of loans delinquent ($36,612 ÷ $327,648)	11%

Second Computation

Total amount of scheduled loan payments delinquent out of the $37,612	$ 14,814
Percentage of principal payments delinquent ($14,814 ÷ $327,648)	5%

The College follows accounting practices for the National Direct Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or for establishment of allowances for uncollectible loans receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the Fund balance and, therefore, would not have a significant effect on the College's over-all financial position.

Note 4 - Unexpended Plant Funds

Primary accounting for major construction projects of the College is performed by the Architecture and Engineering Bureau of the Department of Administration. At June 30, 1976, the Bureau was accounting for the following appropriation:

Purpose: General campus improvement

Original spending authority: $62,000

Expenditures for year ended June 30, 1976: $4,009

Remaining spending authority: $57,991

Note 5 - Deposits with Trustee

The following is a breakdown of the deposits with Trustee at June 30, 1976:

Renewal and replacement fund:

Cash	$ 1,676
Due from retirement of indebtedness fund	15,449
Investments - at cost (market value - $90,116)	89,892
Total	107,017

Retirement of indebtedness fund:

Cash	$ 3,306
Investments - at cost (market value - $197,732)	194,772
Due to renewal and replacement fund	(15,449)
Total	182,629

The investments in the renewal and replacement fund are composed of U.S. Treasury Bills and Notes; yields and/or interest rates range from 5.507% to 6.25%; maturities are at various dates through February 15, 1978. The investments in the retirement of indebtedness fund are composed of U.S. Treasury Bills; yield 5.052% through 5.768%; maturing at various dates through December 23, 1976.

Certain required account balances should be maintained with the Trustee. At June 30, 1976, all required balances have been maintained except for the following:

1966 Bond Indenture		Required Balance	Actual Balance	Deficit
Sinking Fund - Series	A	$ 38,875	$ 25,465	$ 13,410
	B	14,958	(3,015)	17,973
	C	16,656	(12,719)	29,375
	D	29,818	(25,180)	54,998

Note 6 - Investment in Plant

Physical plant, equipment, and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Property disposed of is not deleted from the accounting records. Books purchased for the textbook rental library are not capitalized.

Note 7 - Loan Fund Balances

The loan fund balances at June 30, 1976 are as follows:

Short-term loan fund	$ 25,348
National Direct Student Loan fund:	
Non-capital deficit	(249,745)
Capital:	
Federal contribution	761,277
College contribution	84,589
Total	621,469

Note 8 - Bonds Payable

The details of bonds payable at June 30, 1976 are as follows:

1966 Indenture	
Housing and Dining System Bonds of 1966, 2 3/4 - 3 1/2%, due at various dates through 10/1/2006	$ 1,191,000
1967 Indenture	
Student Building Fee and Land Grant Income Bonds, 3 - 5 1/4%, due at various dates through 7/1/97	519,000
Total	1,710,000

The following items have been pledged under the 1966 Indenture: (a) the net revenues of the housing and dining system included in auxiliary enterprises; (b) the student union fees; (c) the student building fees; and (d) the non-resident building fees.

The following items have been pledged under the 1967 Indenture: (a) the net revenues from the operation of the Physical Education Classroom Building; (b) one-half of the interest and income derived from lands granted by the United States to the State of Montana; and (c) the Physical Education Classroom Building Fee.

The Indentures require certain earnings requirements. For the year ended June 30, 1976, the earnings under the 1966 Indenture was $5,374 less than the requirement.

Note 9 - Unrestricted Fund Balance

The following is a breakdown of unrestricted fund balances at June 30, 1976:

Educational and general	$ 14,239
Auxiliary enterprises	187,488
Total	201,727

Note 10 - Capital Expenditures

The following is a breakdown of the capital expenditures which were charged to current funds expenditures - educational and general:

Instruction	$ 8,905
Academic support	20,871
Student services	130
Institutional support	189
Physical plant	12,793
Total	42,888

AGENCY REPLY

WESTERN MONTANA COLLEGE
OF THE
MONTANA UNIVERSITY SYSTEM
DILLON

February 18, 1977

MEMO TO: Legislative Audit Committee

From: Harding Hanson, Business Manager

Subject: Audit Report, Western Montana College

Although we concur with the bulk of the audit findings and are now in compliance with a number of the comments, complete compliance cannot be reached immediately with the small staff we now have. Those items on which we concur will be implemented as soon as possible.

RECOMMENDATION - Page 4

We recommend the College establish an investment program with the State Board of Investments.

Reply

Concur.

RECOMMENDATION - Page 4

We recommend the following:

(1) The College obtain approval from the Department of Administration to maintain non-treasury accounts or funds.

(2) The change fund be evaluated by appropriate personnel to determine if the fund balance could be reduced.

Reply

(1) Concur.
(2) The change fund will be re-evaluated.

RECOMMENDATION - Page 5

We recommend the following:

(1) The smaller old outstanding checks should be investigated, and if conditions permit such action, they should be written off.

(2) The check representing the work-study refund should be voided. The College should then transfer the $2,621 to one of the following financial aid programs: National Direct Student Loan, College Work-Study, Supplemental Education Opportunity Grants, or Basic Opportunity Grants. This transfer would substitute as a receipt of Federal funds for the 1976-77 financial aid program.

Reply

(1) Concur.
(2) Concur.

RECOMMENDATION - Page 5

We recommend the difference be investigated and that in the future cash be reconciled on a monthly basis. Differences arising in the future should be resolved as quickly as possible.

Reply

Concur. Have more money on deposit than ledgers show.

RECOMMENDATION - Page 5

Accounts receivable should be established when checks are returned by banks and maintained until such time as collection or other disposition of the checks has been made. The receivable should include any penalty which has been assessed by the bank.

Reply

Would concur if check does not clear on redeposit.

RECOMMENDATION - Page 6

We recommend the following:

(1) Teller's daily close out sheets be periodically reviewed by a responsible official. A surprise review would be most desirable.

(2) The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature.

Reply

(1) Concur. Can now do so if budget will permit the retention of additional accountant hired in October, 1976.

(2) Unused checks will be locked up.

RECOMMENDATION - Page 6

The College should request of the Board of Regents a policy which would serve as a guide in accounting for the revenues generated from the service charge and the type of expenditures eligible to be made from accumulated funds.

Reply

Concur, should apply system-wide.

RECOMMENDATION - Page 7

The receivables arising from the deferral of student fees should be incorporated into the College's present accounting system and the

income should be recognized at the time the student elects to defer the charge.

Reply

Will Book receivables, but State is on a semi-accrual accounting system and this requires a full accrual system. Cannot record as income, but only as accounts receivable.

RECOMMENDATION - Pages 6 and 7

We recommend the following:

(1) The College should review on a timely basis students on a deferred fee payment plan to ensure that the fees are collected in accordance with Board of Regent's policy.

(2) Students who are unable to make deferred payments should be referred to the financial aids office. This office should attempt to evaluate the student's financial needs and seek to provide financial aid.

(3) The College should periodically age the accounts receivable and review the aging schedule for delinquent accounts. The delinquent accounts should be investigated and collection pursued.

(4) The College should establish an allowance for uncollectible accounts.

(5) If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection.

(6) When it appears the account will not be collected, it should be written off, but only after Department of Revenue approval.

Reply

(1) through (6) Concur.

RECOMMENDATION - Page 8

The College should adjust its building fees to comply with the law.

Reply

Will be adjusted.

RECOMMENDATION - Page 8

The College should comply with the provisions of the Indenture and assess the full non-resident building fee of $22.50 per quarter to all non-resident students attending Fall, Winter, and Spring quarters without regard to the number of credits being taken by the student.

Reply

The University System in an attempt to establish a more uniform fee structure voted to standardize the charge at $2.00 per credit for the non-resident building fee from the 1st through the 12th credit and again starting with the 19th credit. This was approved by majority vote even with the knowledge that certain bond indentures read as ours does. This "uniform schedule" will be discussed with Board and the bond trustee. We do not have a single non-resident student taking less than a full load.

RECOMMENDATION - Page 9

The College should continue its effort to comply with generally accepted reporting practices and procedures.

Reply

Concur.

RECOMMENDATION - Pages 9 and 10

We recommend the following:

(1) The College reclassify the student store to an auxiliary enterprise. The revenues and expenditures derived from its operations should be shown in the statements of changes in fund balances and current funds revenues, expenditures, and other changes.

(2) An annual inventory should be taken at June 30.

(3) The inventory and receivables should be recognized in the College's accounting records.

Reply

We disagree. The student store was begun by the students and they have accepted full responsibility for its operation, hire and fire employees, and absorb losses or profits directly into the student accounts. As an auxiliary enterprise, this would then become the direct responsibility of the college. As a small unit we refused to establish the store in the beginning. We felt it would not be a bookstore in its true meaning as we rent textbooks. We do not feel we can simply take the store from

the students and we cannot afford to purchase the inventory. We would have no recourse but to close the operation, which would not be viewed favorably by the student body.

RECOMMENDATION - Page 10

(1) The College should investigate through contact with appropriate SBAS personnel as to why the keypunch error went undetected and the possible solutions to safeguard against future miscodings.

(2) The College should obtain formal written approval for expenditures which will cause it to exceed program appropriations. Under no circumstances, should errors be made intentionally to avoid obtaining required approval.

Reply

(1) Concur.
(2) Concur.

RECOMMENDATION - Page 11

The College should not alleviate the revenue bond problems by using appropriated funds to subsidize the operations of the dormitories.

We recommend utilities be charged to the particular area or program receiving the benefits.

Reply

Concur, but survival is also necessary, as is the integrity of the College and the State in meeting bond requirements.

RECOMMENDATION - Page 11

Even though the College does not have control over certain aspects of the scholarship program and no funds are involved, the College should comply with Section 3 of House Bill No. 271 which states "expenditures shall not exceed appropriations except as otherwise provided by approved budget amendment."

Reply

Concur.

RECOMMENDATION - Page 12

We recommend the following:

(1) The College should contact the Department of Administration and attempt to resolve the conflict between MAM Section 2-1420.00 and the AICPA industry audit guide.

(2) That portion of Memo 2-76-3 regarding supplies and materials should be complied with.

(3) The College should not close its books for the year until all accruals have been recorded. As noted in the prior audit report the items being overlooked regarding accruals are basically utility bills. The College should take the necessary steps to ensure that utility bills are accrued at year-end.

Reply

(1) Would appear to be a state-wide problem and perhaps should be determined by Legislative Auditor and Department of Administration.

(2) Concur, but are at mercy of vendors and would entail excessive paper work.

(3) Concur.

RECOMMENDATION - Page 13

The College should arrange with the State Auditor to take all the steps necessary to incorporate its payroll into the central payroll system. College work-study employment should be an integral part of the inclusion.

Reply

Discussions are being had on a system-wide basis. Western will comply to the best of its ability with the decision of the Board.

RECOMMENDATION - Page 14

The College should require written documentation for payroll initiations, changes, and terminations.

Reply

Concur, but applications are being used and positions advertised.

RECOMMENDATION - Page 14

Time sheets should be used as a basis for computing gross payroll. Payrolls should not be processed until time sheets are complete and accurate.

Reply

Concur.

RECOMMENDATION - Page 15

The College should ensure that all required documents are completed before issuing an employee's first paycheck. In no event should a deduction be made from a paycheck until all documents authorizing the deduction are complete and are in the employee's file."

Reply

Being done.

RECOMMENDATION - Page 15

We recommend the following:

(1) The College should maintain complete and detailed records regarding the accumulation and use of vacation and sick leave. Sick leave records should contain explanations justifying its use. Leave records should be periodically reviewed by a responsible official.

(2) The College should request clarification regarding the accrual of sick leave for teachers and professors.

Reply

In process.

RECOMMENDATION - Page 16

We recommend that employees covered under the State pay classification system be paid accordingly. Support for wages paid other than those called for under the system should be documented in writing and retained in the employees' files.

Reply

By court ruling colleges are not required to follow the State pay classification system; however, in most cases at present they are following classified rates.

RECOMMENDATION - Page 17

The College should retain all support indicating the amounts comprising allocations to various departments.

Reply

Records are being kept by back-up sheet on breakdown and coding on the time sheet itself.

RECOMMENDATION - Pages 17 and 18

We recommend the following:

(1) The College should conduct a physical inventory of all property as soon as possible. For the more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed.

(2) Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records.

(3) While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location.

(4) Procedures should be established in the business office to ensure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects.

(5) The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value.

Reply

Policy now being established by the Department of Administration.

RECOMMENDATION - Page 19

The business office should perform all the accounting functions associated with the financial aid programs. Specifically, the business office, in addition to its existing financial aid duties, should:

(a) Perform all journalizing and general ledger posting.

(b) Receive and deposit all Federal funds.

(c) Receive and deposit all National Direct Student Loan collections.

Reply

Concur.

RECOMMENDATION - Page 20

We recommend the following:

(1) Administration of the loan fund should be transferred to the financial aid office. That office is better able to establish criteria and determine financial need of the students.

(2) Loan repayments should be deposited intact and on a timely basis. Under no circumstances should employees' personal checks be used to cover loan payments.

(3) A record should be maintained listing indivisually all receipts deposited.

(4) The College should establish and assess a reasonable interest rate. At a minimum, a flat service charge such as $5 should be imposed.

(5) All loan activity should be accounted for through the regular accounting procedures of the College.

(6) Collection of delinquent loans should be actively pursued by the financial aid office. If collection is not made after a reasonable period of time, the accounts should be turned over to the Montana Department of Revenue for collection. Only after all avenues of collection have been used, should the account be written off.

Reply

Concur.

RECOMMENDATION - Page 21 and 22

The College should record the deposit in its accounting records in order that accountability for this asset can be maintained.

Reply

Concur.

RECOMMENDATION - Page 21

We recommend the following:

(1) A liability should be recognized for funds which revert to the donor and they should be returned as soon as possible.

(2) Revenues which do not belong in this fund should be accounted for in the proper fund.

(3) The student loan fund donation should be transferred to that fund.

(4) The fund with a negative balance should be investigated and appropriate corrective action taken.

(5) All restricted donations should be accounted for in a separate account.

Reply

Concur.

RECOMMENDATION - Page 22

The College should file and retain copies of the required Frontier Conference reports.

Reply

The requirements of Section 8 have not been clearly defined, and this should be done by the Frontier Conference at the next meeting.

RECOMMENDATION - Page 22

The files of all students receiving financial aid should contain detailed and complete written documentation as to the methods and amounts used in calculating his or her need. This is particularly important where the need is increased over the amount computed by the computer service bureau.

Reply

Concur.

RECOMMENDATION - Page 23

The College should consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements.

Reply

The College is investigating alternatives for bond funding.

RECOMMENDATION - Page 24

We recommend the following:

(1) The College should transfer the necessary funds from the

operating account and the Systems Repair Reserve to meet the required balances in the Sinking Fund Accounts.

(2) Future transfers to the Sinking Fund Account should be made on a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve.

Reply

Concur to the best of our ability.

RECOMMENDATION - Page 25

Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.

Reply

This will be discussed with the State Treasurer.

RECOMMENDATION - Page 25

The College should take precautionary steps to ensure that it has a current statement of proof of insurance from Saga Food Service.

Reply

Covered by contract agreement. Concur.

RECOMMENDATION - Page 25

We recommend the following:

(1) The College should make the necessary entries at the time the bond principal is paid.

(2) The College should separate the 1966 and 1967 fund balances into two separate balances.

Reply

Concur.

RECOMMENDATION - Page 26

We recommend the following:

(1) The College should submit periodic reports of transactions and balances to agency fund controllers.

(2) The fund controllers should be instructed to carefully review these reports and investigate discrepancies immediately.

Reply

Concur.

RECOMMENDATION - Page 26

All expense refunds should be credited to the appropriate expense accounts to which they were originally charged.

Reply

Concur.

RECOMMENDATION - Page 27

The College should establish a written receiving report. Bills should not be paid unless accompanied by the receiving report.

Reply

Concur.

RECOMMENDATION - Page 27

Since the business office has accounting control over the textbook rental library, books should not be returned to suppliers without its approval.

Reply

Concur.

Overview
Audit of Western Montana College
June 30, 1976

INTRODUCTION

The audit of Western Montana College at Dillon, Montana was a financial compliance audit. The purposes of the audit were to determine that the financial operations of the College were properly conducted; the financial statements at June 30, 1976 and for the year then ended were fairly presented; and the College complied with applicable state laws and regulations.

The audit resulted in a qualified opinion to the financial statements. A qualified opinion means that certain items in the statements are not presented in conformity with generally accepted accounting principles as they apply to colleges and universities. The qualified opinion was issued because the College does not properly account for property, plant and equipment, nor does it capitalize books purchased for the textbook rental library. In addition, the College classifies the student store as an agency fund whereas, in our opinion, it should be classified as an auxiliary enterprise with revenues, expenditures, and assets recognized in the appropriate funds. Finally, textbook rental deposits and room deposits are included in agency funds; in our opinion the items should be shown on the balance sheet as a current unrestricted fund.

SYNOPSIS OF MAJOR FINDINGS

Seventy (70) recommendations are contained in the audit report. Officials of the College have generally concurred with these recommendations. The findings and recommendations we consider significant are as follows:

Investment of College Funds

The College does not have an established investment policy or program. Except for investments held by the Trustee under the bond indentures, the College had no investments at June 30, 1976. From time to time, the College appears to have considerable excess cash. Various constitutional and statutory provisions require the College's investment program to be operated by the State Board of Investments. We recommend the College establish an investment program with the State Board of Investments.

Cash on Hand and in Banks

The College maintains a change fund of six thousand dollars ($6,000) and two local bank accounts. The bank accounts are used for (1) the student short-term loan fund and (2) the associated students agency account. The aforementioned accounts and fund have not been approved by the Department of Administration as accounts which may be handled by someone other than the State Treasurer. We recommend (1) the College obtain approval to maintain non-treasury accounts and funds and (2) the change fund be evaluated to determine if the fund balance could be reduced.

Deferred Payment Service Charges

In accordance with the Board of Regents policy, the College permits deferred payments of student fees and room and board charges. However the Board has not defined the necessary procedures to account for this service charge. The College should request the Board of Regents to issue a policy which would serve as a guide in accounting for the revenues generated for the service charge and the type of expenditures eligible to be made from accumulated funds.

Accounts Receivable

The revenues and related receivables arising from the deferral of student fees are not recognized in the College's accounting system. The receivables should be incorporated into the College's system and the income should be recognized at the time the student elects to defer the charge.

Delinquent Accounts

Our analysis of the receivables from the deferral of fees at June 30, 1976 indicated balances of approximately nine thousand dollars ($9,000) of which collectability is doubtful. In many instances the College does not pursue delinquenices on a timely basis or upon follow-up it is often found that the student is unable to make payment. The College should review on a timely basis students on a deferred fee payment plan to ensure that the fees are collected in accordance with Board of Regent's policy. Students who are unable to make deferred payments should be referred to the financial aids office. This office should attempt to evaluate the student's financial needs and seek to provide financial aid. The College should periodically age the accounts receivable and review the aging schedule for delinquent accounts. The delinquent accounts should be investigated and collection pursued. The College should establish an allowance for uncollectible accounts. If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection. When it appears the account will not be collected, it should be written off, but only after Department of Revenue approval.

Student Store

The student store operation is presently classified as an agency account on the College's accounting records. The store was established primarily to provide goods and services to students, faculty, and staff. In our opinion, the College should classify the student store as an auxliary enterprise. The revenues and expenditures derived from its operations should be shown in the statements of changes in fund balances and current funds revenues, expenditures, and other changes. The College disagrees with our recommendation. They state that the store was begun by the students who have accepted full responsibility for its operation. We feel the following facts indicate the College is ultimately responsible for the store operations: (1) the store has a fund balance deficit at June 30, 1976 and, in effect, is being subsidized by the College; (2) the store uses College facilities and pays no rent; and (3) the student store manager is also responsible for the textbook rental library. Regardless of these considerations, the fact remains that the preferable method of financial statement presentation from a generally accepted accounting practice viewpoint is to classify the store as an auxiliary enterprise.

Miscodings of Expenditures

During June, 1976 the College miscoded an expenditure in order to remain within the respective program appropriations without obtaining formal written approval to exceed the appropriation. The College should obtain formal written approval for expenditures which will cause it to exceed program appropriations. Under no circumstances, should errors be made intentionally to avoid obtaining required approval.

Central Payroll System

The College payroll, except for off-campus work - study payroll, is prepared by the business office each month in the form of a claim document. The claim is sent to Helena where it is processed through SBAS and warrants are prepared. We noted several inefficiencies and weaknesses in the payroll processing area. Since the College's major area of expenditures is for personal services, it is important that constructive steps be taken to improve payroll procedure. The College should arrange with the State Auditor to take all the necessary steps to incorporate its payroll in the central payroll system. College work - study payroll should be an integral part of this inclusion.

Vacation and Sick Leave

The College does not maintain adequate written records regarding the accumulation of vacation and sick leave. The records are not always maintained in sufficient detail so that problems such as improper, repetitious or excessive use of sick leave credits can be discovered and corrected. The College should maintain complete and detailed records regarding the accumulation and use of vacation and sick leave. Sick leave records should contain explanations justifying its use. Leave records should be periodically review by a responsible official.

Plant, Property and Equipment

The College does not properly account for its investment in plant. Property purchased is often not added to the records and property disposed of is not deleted. Inadequacies observed in the College's property control procedures are of such magnitude that no assurance exists that state-owned property is in the custody of the College and that amounts reported in financial statements are reliable. A list of property is maintained but it does not show the location of the property nor are individual property items identified by a number which can be traced back to the list. The College should conduct a physical inventory of all property as soon as possible. For the more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed. Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records. While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location.

Primary accounting, during the construction period for all projects costing more than three thousand dollars ($3,000) is done by the Architecture and Engineering Bureau of the Department of Administration. During construction the College receives from the Bureau periodic reports listing in detail expenditures by category. At the completion of the project the College receives a final report recapping all expenditures for the project. The College does not record these projects. Procedures should be established in the business office to ensure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects.

The College purchases textbooks and rents them to students who must pay a textbook rental fee and damage deposit. Students do have the option to purchase the books. Our observation of the library indicates a significant textbook inventory. However, these books are not recorded on the College's accounting records. The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value.

Student Financial Aid - Internal Control

Considerable improvement is needed in internal control of a significant portion of the financial aid program. The Director performs or is responsible for a significant number of the accounting functions including posting of the general ledger, receipt and deposit of Federal funds, and receipt and deposit of National Direct Student Loan collections. The business office should perform all the accounting functions associated with the financial aid programs. Specifically, the business office, in addition to its existing financial aid duties, should:

(a) Perform all journalizing and general ledger posting.
(b) Receive and deposit all Federal funds.
(c) Receive and deposit all National Direct Student Loan collections.

Short-term Loan Fund

This fund is not under the administration of the financial aid office. The fund is entirely administered and accounted for by the business office. The prior audit report revealed numberous weaknesses in internal control, several of which were still evident at June 30, 1976. Corrective action was taken in early 1976 to require dual signatures on all loan disbursements. We commend the College for this action. However, significant weaknesses still exist:

(1) Until recently receipts were not pre-numbered and items comprising a deposit were not listed individually. It was not possible to reconcile deposits back to individual receipts.
(2) Deposits are not always made on a timely basis. For example a loan payment of $30.00 received on July 24, 1976 was not deposited until November 5, 1976. This is a period of nearly five months.
(3) Review of deposit slips indicates that in many instances deposits of loan payments may have been made by a College employee's personal check.

(4) The College does not assess any interest.

(5) The records do not reveal whether the loans were based on need or any other established criteria.

(6) Loan transactions are not processed through the regular accounting system of the college.

(7) The College Catalog states that loan repayments are usually to be made during the quarter the money is borrowed. This would mean that at June 30, 1976, the loan balance should be nil. However, there was a balance of $5,364. Included in this total were the accounts of ten students with loan balance totalling $1,829 which had no activity during the fiscal 1975-76 year.

Administration of the loan fund should be transferred to the financial aid office. That office is better able to establish criteria and determine financial need of the students. Loan repayments should be deposited intact and on a timely basis. Under no circumstances should employees' personal checks be used to cover loan payments. A record should be maintained listing individually all receipts deposited. The College should establish and assess a reasonable interest rate. At a minimum, a flat service charge such as $5 should be imposed. All loan activity should be accounted for through the regular accounting procedures of the College. Collection of delinquent loans should be actively pursued by the financial aid office. If collection is not made after a reasonable period of time, the accounts should be turned over to the Montana Department of Revenue for collection. Only after all avenues of collection have been used, should the account be written off.

Financial Status - 1966 Bond Issue

As noted in the prior audit reports, the 1966 bond issue remains in financial jeopardy. Pledged revenues have not been sufficient to meet the requirements of the bond indenture and if the past and present trends continue, substantial amounts of outside funds will have to be committed to meet future principal and interest payments.

Net earnings for the year ended June 30, 1976, were $71,146. The total principal and interest paid during this period was $76,902. Earnings were higher in fiscal year 1975-76 because utilities, normally charged to the residence halls, were paid from physical plant funds.

The deficit was made up by transferring unpledged land grant income totalling $37,352. The College cannot rely on future deficits to be corrected through use of these funds as they are not pledged for this purpose.

Recommendation

The College should consult with the Commissioner of Higher Educatio and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements.

Reserve Requirements - 1966 Bond Issue

In connection with the foregoing comment, the College is required to maintain with the Trustee, sinking fund accounts for each of Series A through D and a Systems Repair Reserve. The College's 1966 revenue bond

operating account at June 30, 1976 had a balance of $108,861 and the Systems Repair Reserve had a balance of $124,777. The four sinking fund accounts did not have the required balances at June 30, 1976 nor were transfers into these accounts made on a timely basis. The bond indenture requires neither the operating account of the Systems Repair Reserve to have a definite balance. During the fiscal year 1975-76, the Trustee deposited all transfers from the College's operating account and part of the land grant income transfer into the Systems Repair Reserve.

The indenture requires deposits to be made from the operating account to the sinking fund accounts at specified times throughout the year. Only after the required deposits to the four sinking fund accounts have been made, should deposits be made to the Systems Repair Reserve. Furthermore, Section 5.06 of the indenture states in part: "...in the event the funds in the Sinking Fund Account should be insufficient to meet principal and/or interest on bonds payable therefrom or should be reduced below the debt service reserves after said reserves have once been accumulated, funds on deposit in the System Repairs Reserve shall be transferred to the Sinking Fund Account to the extent required to eliminate the deficiency in that Account..."

The College should transfer the necessary funds from the operating account and the Systems Repair Reserve to meet the required balances in the Sinking Fund Accounts. Future transfers to the Sinking Fund Account should be made on a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve.

Retirement of Bonds - 1966 and 1967 Issues

The College periodically deposits with the Trustee amounts which are to retire bond principal and interest as they become due. Approximately 15 days prior to the due date, the Trustee remits to the Montana State Treasurer the amount of interest and/or principal which is to be paid.

The cancelled bonds and/or interest coupons are initally handled by the State Treasurer and State Auditor before they are returned to the Trustee. During our audit the cancelled bonds and interest coupons paid July 1, 1975 had not been returned to the Trustee by early November, 1976. In fact, during our inital visit to the State Auditor's office these bonds and coupons could not be located. In our opinion, the present situation creates an unnecessary duplication of effort and diminishes the control over the paid bonds and coupons.

Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.

CONCLUSION

We have made other recommendations in the audit report designed to improve the College's accounting procedures and internal controls and to correct various weaknesses. These recommendations can be found in their entirety on page 3 through 28 of the audit report. In addition, we examined the financial statements of the revenue bonds and the financial aid programs (National Direct Student Loan, College Work-Study and Supplemental Educational Opportunity Grants). These reports are filed under separate cover.

We wish to take this opportunity to express our appreciation for the cooperation and assistance we received from the College's personnel and the Legislative Auditor's staff.